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3 October 2006

Mr Vincent H.C. CHENG, JP  
Chairman  
Process Review Panel for the Securities and Futures Commission  
18<sup>th</sup> floor, Tower 1  
Admiralty Centre  
18 Harcourt Road  
Hong Kong

Dear Mr CHENG,

**Panel on Financial Affairs**  
**Follow-up to special meeting on 29 September 2006**

**Regulation of securities firms**

On behalf of Hon Bernard CHAN, Chairman of the Panel on Financial Affairs (FA Panel), I write to invite the Process Review Panel (PRP) to review the following three recent cases of broker misconduct and provide information on the review findings:

- (a) Whole Win Securities Limited;
- (b) Tiffit Securities (Hong Kong) Limited; and
- (c) Wing Yip Company Limited.

In the light of the three cases mentioned above, the FA Panel invited the Administration and the Securities and Futures Commission (SFC) to attend its special meeting on 29 September 2006 for discussion on the effectiveness of the current regulatory framework in deterring broker misconduct and protecting investors' interests. The FA Panel noted from paragraph 6 of the paper provided by SFC for the meeting (*LC Paper No. CB(1)2248(05-06)*) that:

“The SFC conducted a rapid onsite inspection in all three cases of broker misconduct once we identified certain unusual patterns in the financial returns submitted by these brokers. The inspection focused on verifying the firm's financial resources and employing means to safeguard client assets. Once these brokers were subjected to close scrutiny, we were able to confirm our suspicions and uncover the specific misconduct”.

In this connection, Hon James TO expressed concern on whether the misconduct involved in the above three cases could have been uncovered at an earlier stage. He therefore requested SFC to review the relevant files and records to ascertain whether the same “unusual patterns” or irregularities had been identified in its previous onsite inspections or previous examination of financial returns submitted by the three securities firms concerned. In view of the advice given by the Chief Executive Officer of SFC at the meeting that the internal operational procedures of SFC were subject to review by PRP, the Chairman of the FA Panel would like to invite PRP to review the three cases mentioned above, including the following aspects:

- (a) whether the same “unusual patterns” or misconduct mentioned in paragraph 6 of the attached paper had been identified in SFC’s previous onsite inspections or previous examination of financial returns submitted by the three securities firms concerned;
- (b) whether the actions taken and decisions made in relation to the three cases mentioned above are consistent with the relevant internal procedures and operational guidelines; and
- (c) if the answer(s) to item (a) and/or item (b) above are in the affirmative, whether the SFC’s internal procedures and operational guidelines are adequate in ensuring the effective performance of SFC’s regulatory functions.

I should be grateful if PRP would provide the FA Panel with a written response (in both Chinese and English) **on or before 24 November 2006**. Please forward the soft copy of the written response by e-mail to Ms May LEUNG at [mleung@legco.gov.hk](mailto:mleung@legco.gov.hk).

Please note that unless PRP raises objection, the information provided to the FA Panel will be made available to the media and public and placed in the Library of the Legislative Council. The information will also be available on the Web Site of the Council on the Internet.

Yours sincerely,

(Ms Rosalind MA)  
for Clerk to Panel

Encl.

c.c. Hon Bernard CHAN, GBS, JP (Chairman)  
Chief Executive Officer,  
Securities and Futures Commission (Fax: 2845 9553)  
Mrs Dorothy MA, PAS/FSTB (Fax:2861 1494)

} without  
enclosure